



COST PROPOSAL ANALYSIS FOR ACO/CA NEGOTIATED PROPOSALS

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OBJECTIVE

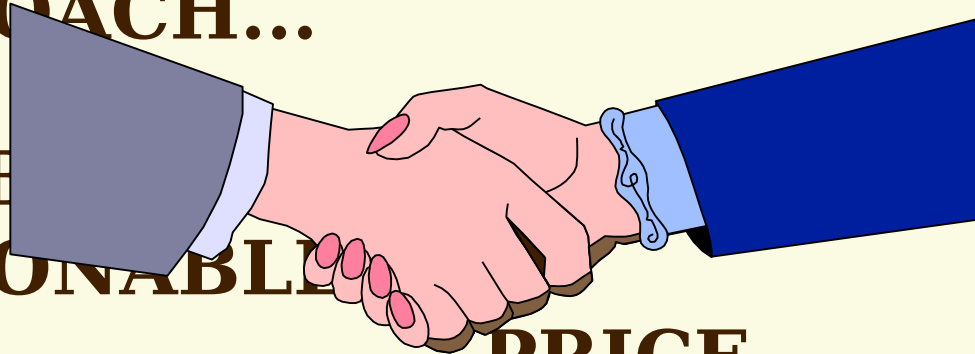
**DESCRIBE THE STEPS IN
ANALYZING**

COST PROPOSALS (i.e. UCAs,
Over & Above,
Spares, Repairs, Claims, etc.)

**DETERMINE THE PRICING
APPROACH...**

**ESTABLISH
REASONABLE**

PRICE



AGENDA/OVERVIEW

- 1. DETERMINE THE PRICING REVIEW APPROACH
(Price Analysis or Cost Analysis)***
- 2. DEFINE THE PRICING APPROACH***
- 3. TECHNIQUES FOR PRICING SPARE PARTS OR
SUPPORT EQUIPMENT***
- 4. DEFINE & EVALUATE COST ELEMENTS***
- 5. REQUESTING AUDIT AND/OR TECHNICAL
SUPPORT***
- 6. APPLYING QUESTIONED COST/HOURS TO
APPROPRIATE BASES (EXERCISES)***

STEPS TO EVALUATING COST PROPOSALS



DETERMINE THE REVIEW APPROACH

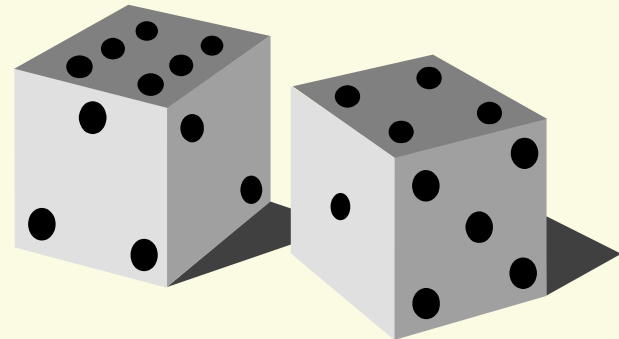


PRICE ANALYSIS

OR



COST ANALYSIS

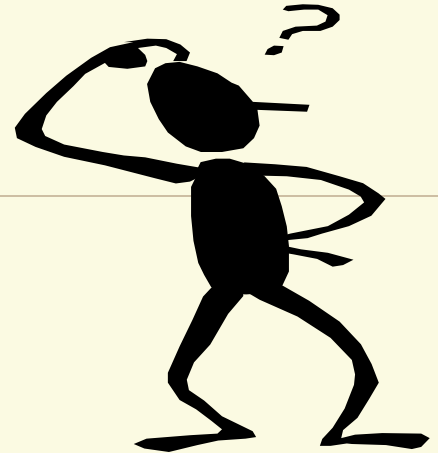


WHAT IS PRICE ANALYSIS ?

FAR 15.404-1(b)

**DEFINES *PRICE ANALYSIS* AS
THE PROCESS OF
EXAMINING AND
EVALUATING**

**A PROPOSED PRICE
WITHOUT EVALUATING ITS
SEPARATE COST ELEMENTS
AND
PROPOSED PROFIT.**



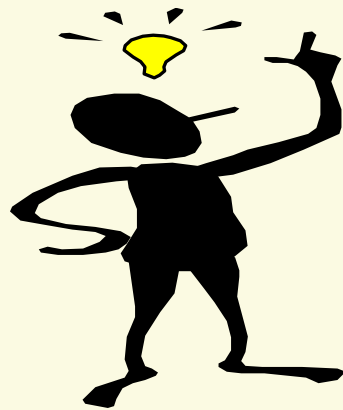
“PRICE ANALYSIS”

FAR 15.404-1(a)(2): **PRICE ANALYSIS**
SHALL BE **USED**
WHEN COST OR PRICING
DATA ARE NOT REQUIRED

NOTE! FAR 15.403-1(b)
EXCEPTIONS TO COST & PRICING
DATA REQUIREMENTS.
FAR 15.404-1(b)(2)(i-vi)...
EXAMPLES OF PRICE
ANALYSIS TECHNIQUES

NOW.....

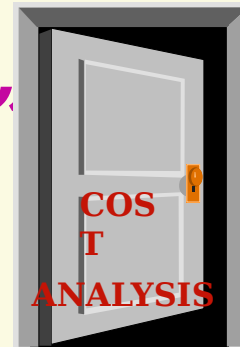
**IF A FAIR AND REASONABLE
PRICE COULD NOT BE ESTABLISHED
THROUGH**



“PRICE ANALYSIS”

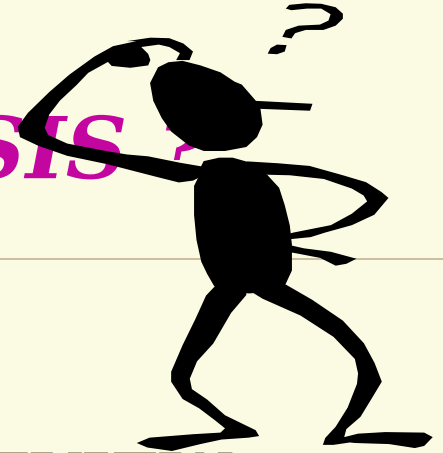
THEN....

“COST ANALYSIS”



WHAT IS COST ANALYSIS?

FAR 15.404-1(c)



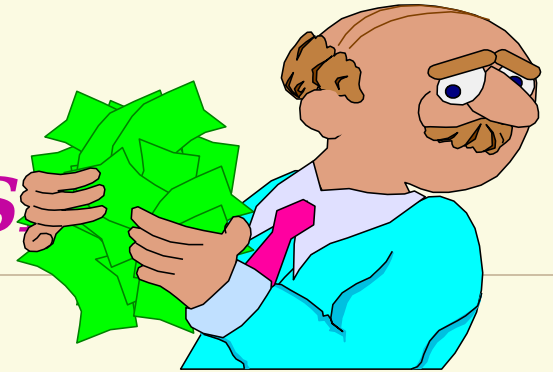
COST ANALYSIS IS THE REVIEW
AND EVALUATION
OF THE SEPARATE
COST ELEMENTS AND
PROFIT
IN AN OFFEROR'S OR
CONTRACTOR'S PROPOSAL
(INCLUDING COST OR PRICING DATA
OR INFORMATION
OTHER THAN COST OR PRICING DATA)
AND.....

WHAT IS COST ANALYSIS ?

FAR 15.404-1: (Continue)

**.....THE APPLICATION OF JUDGMENT
TO DETERMINE
HOW WELL THE PROPOSED COSTS
REPRESENT
WHAT THE COST
OF THE CONTRACT SHOULD BE,
ASSUMING REASONABLE
ECONOMY AND EFFICIENCY.**

"USING COST ANALYSIS"



FAR 15.404-1(3).....

***COST ANALYSIS SHALL BE USED TO
EVALUATE THE REASONABLENESS OF
INDIVIDUAL COST ELEMENTS WHEN
COST OR PRICING DATA ARE
REQUIRED....***

***(REQUIREMENT IS BASED ON FAR
15.403-4....***

***..The threshold for obtaining cost or pricing
data is \$500,000)***

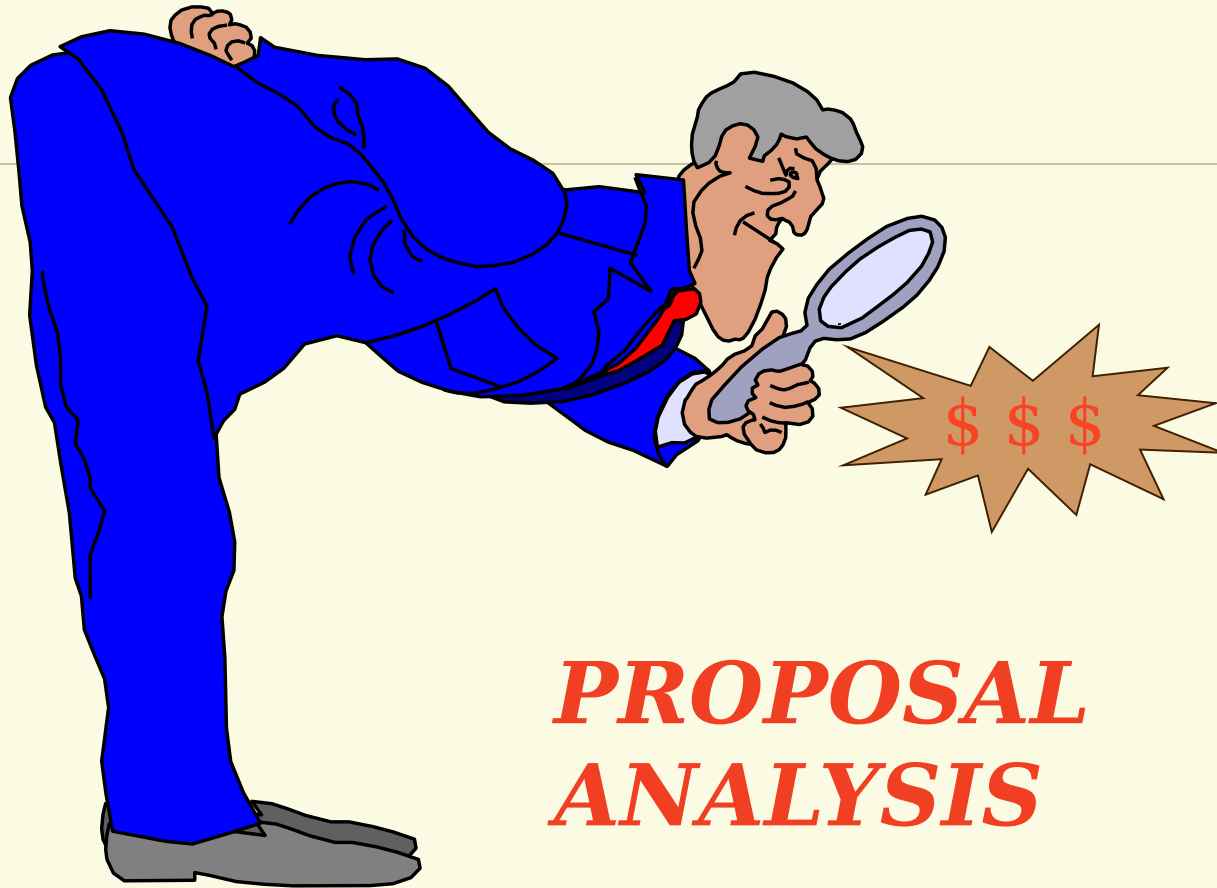
***PRICE ANALYSIS SHOULD BE USED
TO VERIFY THAT THE OVERALL PRICE***

PRICE ANALYSIS *REMEMBER.....*
FAVORED OVER COST ANALYSIS FOR TWO REASONS;

- **FOCUSES ON *IT..P..* PRICE AND NOT ON WHAT IT COST TO MAKE THE PRODUCT.**

- **GENERALLY IS COSTLY AND TIME CONSUMING.**





PROPOSAL ANALYSIS

PROPOSAL ANALYSIS FOR SPARE PARTS

OR SUPPORT EQUIPMENT
DFARS 215.404-1(a) PERFORM AN
ANALYSIS
OF.....

(i) THOSE LINE ITEMS WHERE THE
PROPOSED PRICE
EXCEEDS 25% OR MORE THE LOWEST
PRICE THE
GOV'T HAS PAID WITHIN MOST RECENT 12
MONTH PERIOD BASED ON REASONABLY
AVAILABLE INFORMATION;

(ii) THOSE LINE ITEMS WHERE A

SPARE PARTS OR SUPPORT EQUIPMENT (Continue)

(iii) SIGNIFICANT HIGH-DOLLAR VALUE ITEMS.

IF THERE ARE NO OBVIOUS HIGH
DOLLAR
VALUE ITEMS, INCLUDE AN ANALYSIS
OF
A RANDOM SAMPLE OF ITEMS; AND

(iv) A RANDOM SAMPLE OF THE
REMAINING
LOW-DOLLAR VALUE ITEMS. SAMPLE
SIZE

MAY BE DETERMINED BY SUBJECTIVE

EVALUATING COST ELEMENTS

ELEMENTS OF A COST PROPOSAL

- **DIRECT COST**
- **INDIRECT COST**
- **PROFIT/FEE**

FIRST...

DIRECT COSTS

FAR 31.202

**DIRECT COST IS ANY COST THAT CAN
BE**

IDENTIFIED SPECIFICALLY

**WITH A PARTICULAR FINAL COST
OBJECTIVE.**

TYPES OF DIRECT COST

DIRECT MATERIAL

- PURCHASE PARTS**
- RAW MATERIAL**
- SUBCONTRACT**

ITEMS

DIRECT LABOR

- ENGINEERING**
- MANUFACTURING**
- SERVICE LABOR**

OTHER DIRECT COST

- TRAVEL**
- SPECIAL TOOLING,**

DIRECT MATERIAL

“SAMPLE” BILL OF MATERIALS (BOM)

<u>PART</u> <u>COST</u>	<u>UNIT PRICE</u>	<u>QUANTITY</u>	
123XYZ	1,125.50	100	
\$112,500			
321ZYX	1,200.00	75	
90,000			
A248XS	175.00	125	
21,875			
9632MF	150.00	50	
7,500			

“SAMPLE”
DIRECT
LABOR

<u>LABOR CLASS</u> <u>COST</u>	<u>HOURS</u> <i>(Manufacturing</i>	<u>RATE</u>
GRINDING \$ 26,825	1,450	\$18.50
POLISHING 23,495	1,270	18.50
WIRING 12,975	865	15.00
ASSEMBLY 5,673	366	15.50
INSPECTION 2,096	131	16.00

"SAMPLE"
DIRECT LABOR
(Engineering)

<u>LABOR CLASS</u> <u>COST</u>	<u>HOURS</u>	<u>RATE</u>
SR. ENGR. \$ 18,143	885	\$ 20.50
SYSTEM ENGR. 37,800	2,100	18.00
DESIGN ENGR. 20,813	1,125	18.50
DRAFT 4,813	275	17.50
CHECK 2,448	153	16.00

OTHER DIRECT COST (ODC)

**COSTS THAT ARE COMMONLY
PROPOSED AS ODC INCLUDE**

- SPECIAL TOOLING**
- TEST EQUIPMENT**
- TRAVEL**
- PACKAGING & SHIPPING**
- COMPUTER COST**

INDIRECT COST

FAR 31.203

**INDIRECT COST IS ANY COST
NOT**

DIRECTLY IDENTIFIED WITH

A SINGLE FINAL COST

OBJECTIVE,

TYPES OF INDIRECT COST

- **MATERIAL OVERHEAD**
(i.e. Material Handling, etc.)
- **LABOR OVERHEAD**
(i.e. Manufacturing, Engineering, etc)
- **GENERAL & ADMINISTRATIVE EXPENSE (G & A)**

DETERMINE ANALYSIS SUPPORT

FIRST



- **UNDERSTAND WHAT YOU ARE BUYING**
- **CHECK THE PROPOSAL FOR ACCURACY**
- **DO YOU HAVE PRICING HISTORY ON FILE**
- **REVIEW PRICE HISTORY**
- **HAS THIS ITEM BEEN PURCHASED IN RECENT PAST**
- **IS AUDIT OR TECHNICAL NEEDED**

*** REQUESTING TECHNICAL OR AUDIT**

SUPPORT

**SOME OF THE AREAS THAT MAY
REQUIRE TECHNICAL
SUPPORT.....**

- QUANTITIES AND KINDS OF
MATERIAL**
- NUMBER OF
LABOR HOURS**
- LABOR SKILL MIX**
- SPECIAL
TOOLING, SPECIAL TEST
EQUIPMENT**
- SCRAP AND SPOILAGE FACTORS**
- PROCEDURES
AND PROCESSES**

REQUESTING TECHNICAL OR AUDIT SUPPORT

(Continue)

**SOME OF THE AREAS THAT MAY
REQUIRE AUDIT SUPPORT.....**

- MATERIAL COST**
- LABOR RATES (Absent
FPRA/FPRR)**
- INDIRECT COST RATES (“
”)**
- COST OF MONEY (“
”)**
- ESCALATION FACTORS**
- OTHER FACTORS**
- SYSTEMS REVIEW**

DETERMINE COST REASONABLENESS

FAR 31.201-3(a)

**A COST IS REASONABLE IF,
IN ITS NATURE AND AMOUNT,
IT DOES NOT EXCEED THAT WHICH
WOULD BE INCURRED
BY A PRUDENT PERSON IN THE
CONDUCT
OF COMPETITIVE BUSINESS.**

DO NOT ASSUME

THAT A COST IS REASONABLE

JUST BECAUSE THE

***CONTRACTOR HAS ALREADY
INCURRED THE COST***

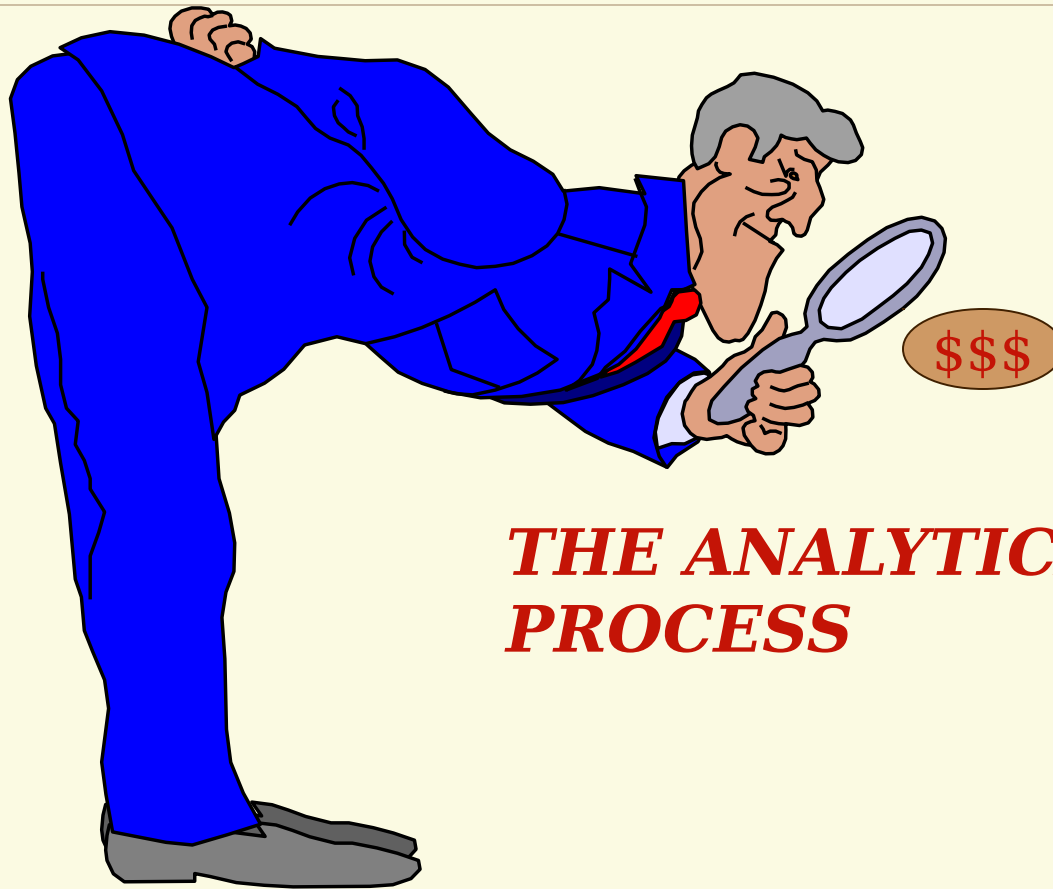


FAR 31.201-3(a)

CHALLENGE

***IF YOU CHALLENGE THE
REASONABLENESS
OF AN INCURRED COST,
THE BURDEN OF PROOF
SHALL BE ON THE
CONTRACTOR***

***TO ESTABLISH THAT THE COST
IS
FAR 31.201-3 (a)
REASONABLE.***



***THE ANALYTICAL
PROCESS***

“SAMPLE”
XYZ INC.
COST PROPOSAL

COST ELEMENTS
PROPOSED

MATERIAL **\$**

237,672

MATERIAL O/H @ 5%

11,884

MANUFACTURING LABOR

73,693

MFG. LABOR O/H 154.82%

114,092

ENGINEERING LABOR

87,126

ENGR. LABOR O/H @ 109.7%

95,577

ANALYSIS 1

TECHNICAL ANALYSIS QUESTIONED THE FOLLOWING:

PURCHASED PARTS:

- PART 123XYZ - 15 ITEMS**
- PART 9632MF - 10**

ITEMS

MANUFACTURING LABOR:

- GRINDING - 50 HRS.**
- INSPECTION - 20 HRS.**

ENGINEERING LABOR:

- DESIGN - 20 HRS.**

ANALYSIS

II

DCAA AUDIT QUESTIONED THE FOLLOWING:

DIRECT MATERIAL:

PART NO.	321ZYX	\$25.00
UNIT PRICE		
MATERIAL ESCALATION	1.2%	
MATERIAL O/H	1.0%	

MANUFACTURING LABOR:

INSPECTION	.50	
HRLY. RATE		
WIRING	.50	
HRLY. RATE		

ANALYSIS II

(Continue)

ENGINEERING LABOR:

SYSTEM ENGR.

\$.50 HRLY. P

CHECK

\$.50 HRLY.

ENGR. ESCALATION

1.5%

ENGR. LABOR O/H

3.2%

G&A RATE

1.5%

EXERCISE 1:
DETERMINE THE
RECOMMENDED MATERIAL COST

COST ELEMENT
RECOMMEND

PROPOSED

MATERIAL

\$ 231,875

MTRL ESCL. @ 2.5%

5,797

TOTAL MATERIAL

\$ 237,672

ANSWERS TO EXERCISE 1:

DETERMINE THE RECOMMENDED MATERIAL COST

PROPOSED BILL OF MATERIALS

<u>PART</u>	<u>U.P</u>	<u>QTY.</u>	<u>COST</u>
123XYZ	\$ 1,125	100/	85
	\$112,500/		95,625
321ZYX	1,200/	1,175	75
	90,000/		88,125
A248XS	175	125	
	21,875		
9632MF	150	50/	40
	7,500/		6,000

EXERCISE 2:
DETERMINE THE
RECOMMENDED MNFG. LABOR
COST

COST ELEMENT
RECOMMENDED

PROPOSED

MNFG. LABOR	\$ 71,064
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MNFG. LABOR ESCL	2,629
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TOTAL MNFG. COST	\$ 73,693
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ANSWERS TO EXERCISE 2

DETERMINE THE RECOMMENDED

<u>LABOR CLASS</u> COST	<u>HRS.</u>	<u>RATE</u>	<u>COST</u>
GRINDING	1,450/ 1,400	\$18.50	\$ 26
POLISHING	1,270	18.50	23
WIRING	865	15.00/ 14.50	12
ASSEMBLY	366	15.50	5
INSPECTION	131/ 111	16.00/ 15.50	2,
ESCALATION	3.7%/ 2.2%		2,6

EXERCISE 3:
DETERMINE THE
RECOMMENDED
ENGINEERING LABOR
COST ELEMENT PROPOSED
RECOMMENDED

ENGR. LABOR	\$ 84,017
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ENGR. LABOR ESCL	3,109
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TOTAL ENGR. LBR.	\$ 87,126
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ANSWERS TO EXERCISE 3

DIRECT LABOR

(Engineering)

<u>LABOR CLASS</u>	<u>HRS.</u>	<u>RATE</u>	<u>COS</u>
SR. ENGR.	885	\$ 20.50	\$ 18.00
SYSTEM ENGR.	2,100	18.00/17.50	3,780.00/3,675.00
DESIGN ENGR.	1,125/1,105	18.50	20,612.50/20,443.75
DRAFT	275	17.50	4,812.50
CHECK	153	16.00/15.50	2,448.00/2,371.50
ESCALATION	3.7%/2.2%		\$ 3,780.00/\$ 3,675.00

BASE APPLICATION
(for Material, Mnfg/Engr. Labor, & G & A)

QUESTIONED COST DUE TO RATE:

PROPOSED BASE \$ _____
X QUESTIONED RATE
QUESTIONED DUE TO RATE \$

QUESTIONED COST DUE TO BASE:

QUESTIONED BASE \$ _____
X ACCEPTED/RECOM. RATE
QUESTIONED DUE TO BASE \$

TOTAL COST QUESTIONED \$ 42

XYZ INC. COST PROPOSAL

COST ELEMENTS RECOMMENDED

PROPOSED

MATERIAL	\$	237,672	\$
.....			
MATERIAL O/H @ 5%		11,884	
.....			
MNFG. LABOR		73,693	
.....			
MFG. LBR. O/H 154.82%		114,092	.
.....			
ENGR. LBR.		87,126	
.....			
ENGR. LBR. O/H 109.7%		95,577	

OTHER FACTORS

ESCALATION INDICES: APPLY APPROPRIATE ESCALATION INDICES IN ALL CASES, i.e ..DRI, INC.

COST OF MONEY/PROFIT: APPLY CURRENT TREASURY INTEREST RATE IN THE COST OF MONEY CALCULATION AND USE THE WEIGHTED GUIDELINE MODEL.

PNM: KNOW THE STATUS OF THE KTR'S BUSINESS SYSTEMS , I.E., PURCHASING, ACCOUNTING, COMPENSATION, ESTIMATING, ETC.

SUMMARY CHECK LIST

- < PERFORM PRICE ANALYSIS OR COST ANALYSIS (Remember the preferred method)**
- < REVIEW PROPOSAL FOR ADEQUACY**
- < REQUEST AUDIT OR TECH ASSISTANT ONLY WHEN NECESSARY (Check file for history)**
- < COMPUTER SPREADSHEET (Apply rates to**

REFERENCES

FAR PART

- 15.402 PRICING POLICY**
- 15.403 OBTAINING COST OR PRICING
DATA**
- 15.404 PROPOSAL ANALYSIS**
- 15.405 PRICE NEGOTIATION**
- 15.406 DOCUMENTATION**
- 31.201-3 DETERMINING
REASONABLENESS**
- 31.202 DIRECT COST**
- 31.203 INDIRECT COST**